



# **Enhanced Small and Medium Sized Enterprise Development Program**

## **Quarterly Performance Report**

**January 1 to March 31, 2006**

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Counterpart International  
Center for Investment and Support (Prognoz)  
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The Far Eastern Center for Economic Development  
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## 1. Background

Winrock International, in partnership with Counterpart International, Center for Investment and Support (Prognoz), Sakhalin Association of Business People and Counterpart Enterprise Fund, is working to increase the number of successful small businesses and improve the environment for small businesses to emerge in the Russian Far East. Funded by the United States Agency for International Development, the Enhanced Small and Medium Sized Business Development Program (ESD) has four primary objectives:

- 1) Reduce the burden of regulations on SMEs by increasing SME association advocacy;
- 2) Increase the availability of credit for SMEs and entrepreneurs;
- 3) Provide and increase the availability of advanced business and sector-specific training skills; and
- 4) Build capacity of sector-specific associations by working through them to provide sector-specific consultancies.

In addition, the ESD Program is demand driven, ensures women and remote people benefit, and works to ensure collaboration between business support institutions and other businesses development projects with open and free information.

The project began August 1, 2003, and will continue until August 3, 2006. This report covers activities and results for the period from January 1 to March 31, 2006.

### Project Administration

January-March 2006, ESD Chief of Party had meetings with USAID and Regional Initiative representatives. Discussions touched upon the program progress, its impact on partners and on the region. The parties recognized ESD success in developing the training markets for entrepreneurs in the RFE regions, and strengthening partner organizations. It was agreed that ESD would supply its program information to both organizations on a more regular basis.

## 2. Progress Indicators

### 2.1. Improving Regulatory Environment

During the last quarter, ESD local partners conducted regular monitoring of administration barriers level in Amur region and on Sakhalin.

In addition, Counterpart facilitated development of business association networks and coalitions to achieve common goals. ESD brought associations' leaders together periodically to share information, best practices, and lessons learned and to identify potential areas for collaboration on advocacy issues. This is helping to build working relationships and make the associations and networks a strong force for change.

#### *Overcoming Administration Barriers through Advocacy Grants*

The following grants were successfully completed during this quarter:

**Poronaysk Central Library (Sakhalin)** received a grant to a) help decrease the number of inspections on SMEs conducted by government agencies thus decreasing the level of regulatory burden and b) improve small businesses' skills to interact with controlling government agencies by organizing information seminars, publishing articles and brochures, providing details on what kind of documents inspectors should present while conducting inspections, how often the controlling government agencies may inspect the same business, etc.

To make the grant activities more effective, the grantee cooperated with the Poronaysk District Association of Business People. The grantee organized and conducted 2-days seminar on *"Entrepreneurs' rights and advocacy opportunities"*, developed and published the information brochure *"Normative acts regulating the activities of controlling units"* and conducted a roundtable with representatives from the business and inspection units. During this event government officials answered questions regarding transparency of rules and procedures during inspections.

As a result of the roundtable, a resolution with recommendations to create a working group responsible for keeping inspections within the bounds of the law was developed and submitted to the authorities of the Poronaysk District municipality -- the Sanitary Inspection, Tax Service, Militia and the Fire Department.

Grantee plans to conduct post grant monitoring in April.

**Aniva Union of Business People (Sakhalin)** created favorable conditions for entrepreneurs in the Aniva District by setting the local normative documents in compliance with the federal acts and regulations and supporting the business incubator (created 5-6 years ago on the Aniva regional administration decision) and decreasing unscheduled inspections by Rospotrebnadzor".

To achieve their goals, Aniva Union of Business People:

- Organized and held an information seminar,
- Provided consultations for entrepreneurs on their rights,
- Disseminated information on entrepreneurial rights related to the number of inspections conducted by the controlling government agencies, and
- Provided information on how to develop proposals for the Entrepreneurial Support Program. The Program is implemented by the local administration to provide support to small business and start-ups. Proposals were discussed at the roundtables and submitted to the Aniva district Duma.

**Union of Entrepreneurs (Amur region)** implemented an advocacy grant from November 2005 through March 2006. The grant was used by the Union of Entrepreneurs to build a coalition of a few local business associations to advocate for an improved tax code. On January 1, 2005 RF Tax Code was changed affecting imputed earnings tax. Municipalities received the right to determine the taxes on the local level. After the changes, the entrepreneurs of Blagovezhensk city had to pay an imputed earnings tax of more than three and half times which impacted negatively the local entrepreneurs.

The coalition developed and submitted to the Blagovezhensk City Duma proposals advocating for a decreased adjusting factor for the calculation of the imputed earnings tax.

**Construction Association (Amur region)** built a coalition to facilitate the removal of the administrative constraints for the SMEs engaged in the construction business in the Amur Region. The barrier appeared because the rules stipulated into the normative documents failed to meet the current requirements of the construction sector.

The goal of the grant was:

- To join efforts of entrepreneurs to inform the local authorities about barriers in the current laws in the construction sector and ways to improve them by developing the temporary provision document.
- To develop a temporary provision of getting license to start business by using the experiences of other regions, which allow for the investors to determine the procedure of accepting and licensing finished construction objects under control of the state supervisory inspection and with the participation of the executive bodies.

**Nevelsk Entrepreneurs Union (Sakhalin).**

In March 2005, The “2005-2007 *Nevelsk District Entrepreneurship Support Program*” was adopted. However, the Support Program appeared to be of a declarative nature and not designed to provide support mechanism for SMEs and therefore is not useful nor efficient. In order to improve it, Nevelsk Entrepreneurs Union (Sakhalin) worked on developing the following recommendations to the Duma for consideration:

- Set up priorities for SME development to be included in *The 2005-2007 Nevelsk District Entrepreneurship Support Program*;
- statement on the *Investment Projects Contest*, and on the *Procedures of Investment Projects Funding* to be included in the existing “2005-2007 Nevelsk District Entrepreneurship Support Program” to help provide mechanism for implementation of the *Entrepreneurship Support Program*.

Two more grants are ongoing.

Post grant monitoring will be conducted on all completed grants over the three following months.

There is tangible evidence that SMEs are more involved in the process of reviewing and improving regulations and that collaboration with government is an effective mechanism for change.

**Monitoring**

In January – February, ESD partners conducted the last ***monitoring on the level of administrative regulation*** on the small business. The purpose of the monitoring was to analyze the effects of deregulation reform on actual administrative barriers to business and to compare to the baseline data of November 2003. The last monitoring round demonstrated positive changes such as further simplification in the procedure of registration, lower frequency of inspections and a smaller share of illegitimate licenses among the permissive documents given to firms.

**Registration:** the registration procedure became simpler and faster with 93.3% of new Sakhalin firms registered during the prescribed five days.

**Licensing:** although there were significant improvements and the process of obtaining licenses became less time-consuming, the average monetary cost was 1/3 higher than as the fee announced in the law. About half of required documents are licenses for types of activities that are formally not subject to licensing.

**Inspections:** the number of inspections conducted by the authorities showed a significant decrease of 27.4% compared to the baseline data. However, the most frequent inspections are still conducted by the tax, fire, and police authorities and the newly created Rospotrebnadzor.

### ***Partner capacity and expertise strengthening***

With ESD staff assistance and advice, Prognoz and SABP regularly consulted potential grantees on the program's goals and tasks, on writing grant applications, and on advocacy topics. In addition to helping grantees to draft applications and design advocacy campaigns, SABP and Prognoz monitor the grants project activities and do grants follow-ups.

## **2.2 Improving Access to Credit**

Under the access to credit component, Counterpart facilitates development and introduction of new workshops for financial institutions. It also offers strategic direction and mentoring to the Counterpart Enterprise Fund (CEF), which provides logistic support to workshops for SMEs, banks, and non-bank financial institutions. These training activities provide financial institutions with the tools and information they need to lend to SMEs profitably and provide SMEs with information on how to access financing.

### ***Loans***

During the quarter, SMEs received **945 loans worth \$6,693,057** from participating banks and non-bank financial institutions and signed **15 leasing agreements worth \$178,591**. This is a direct result of the training sessions that Counterpart has provided these institutions since project inception.

### ***First Regional Conference in Yakutsk "Development of the Microcredit Loan System to Support SME in Yakutia"***

In March, ESD partner Business School in Yakutsk, with support of Republic government, organized and conducted the first Regional Conference in Yakutsk -- *Development of the Microcredit Loan System to Support SME in Yakutia*. There were 462 representatives of credit cooperatives, Republic government officials, banks, entrepreneurial support funds, consulting agencies and training centers that came together in Yakutia. This was a unique chance for all participants to discuss the growing role of microfinance sector for SME development, to share information and a chance to exchange experience.

Practitioners of many credit cooperatives emphasized that ESD program helped them very much by providing specialized training courses. As a result of ESD Program support, the number of credit association members increased from 5 in 2003 to 16 at present time. The president of the association named ESD trainings as a crucial factor for credit cooperatives to choose especially this association.

At the same time being supported by the ESD Program, the Association of Credit Cooperatives from Primorsky region sent two chairpersons of newly set up credit cooperatives to Yakutia to take part in this conference. This gave them the opportunity to get new experience necessary for securing successful performance of their credit cooperatives, as well as to see for themselves the performance of those credit cooperatives, which have been in the SME crediting market for a long time.

### ***Rating Evaluation for the Counterpart Enterprise Fund***

From February 25 till March 4, 2006, Microfinanza rating experts made a site visit to CEF. As a result of their visit the experts developed and submitted a rating visit report in which they listed all interviews, meetings conducted during this business trip. They also described preliminary findings and some recommendations. The final rating report will be submitted to ESD and CEF at the end of April.

Due to the delay in approving the subagreement between WI and Russian Microfinance Center (RMC) by USAID, three **seminars** scheduled for February – March had to be postponed till April – June.

## **2.3 Advanced Business and Sector-Specific Training**

This quarter Winrock continued to work with its **five** major training partners and other regional training centers to expand availability of advanced and sector-specific training in Russia Far East. **41** training courses for **540** entrepreneurs were offered in all targeted regions in January - March 2006.

### **2.3.1 Advanced Business Skills Trainings Conducted**

**Table 2 – Advanced Trainings by Region and Number of Participants**

<b>Region</b>	<b>Advanced Business Skills Trainings</b>	<b>Participants</b>
<b>Amur Oblast</b>	<b>9</b>	<b>119</b>
<b>Buryatia</b>	<b>7</b>	<b>76</b>
<b>Khabarovski Krai</b>	<b>4</b>	<b>76</b>
<b>Primorski Krai</b>	<b>10</b>	<b>131</b>
<b>Sakha (Yakutia)</b>	<b>6</b>	<b>91</b>
<b>TOTAL</b>	<b>36</b>	<b>493</b>

### ***Training modules***

During the total program period, **twenty** new training modules have been developed and placed on the ESD web site. Each module contains theoretical and practical material, case studies, samples of hand-outs for participants and recommendations to trainers on how to use the module. **Eleven** of these modules have been used by Partners' organizations for conducting trainings in January - March 2006.

### ***Use of local trainers***



ESD partners have significantly increased the use of local trainers, giving them the opportunity to get known in the region and promote their services. Out of **37** ESD trainings conducted last quarter, **33** have been conducted by trainers from the RFE region.

### ***Distant Learning***

ESD partners have been distributing distance learning courses on CDs, developed by the program. Two training courses have been published entitled *Merchandising*, and *Effective Sales Techniques* by Roman Simutkin. Four hundred eighty seven entrepreneurs have been trained through this course in January -March 2006.

### ***Training Market Development***

“PROFI-Expo 2006” organized by Business-School in Yakutsk hosted **43** consulting companies of the Sakha Republic in the “Days of SME Crediting” event sponsored by the Sakha Republic government during March 16-17, 2006. The Exposition was visited by more than **540** SME representatives. At the show, ESD partner Business-School signed an agreement with the “Rosgosstrakh” insurance company to provide trainings for this company in 2006. As a result of this event, Yakutia companies secured **34** contracts with training and consulting companies for the sum of **\$1,100**.

### **2.3.2 Sector-Specific Trainings Conducted**

ESD Partners continued to support key RFE industries, and in January -March 2006, the Program provided **five** sector-specific training sessions to **47** business people

Ten directors of RFE hotels were trained during the *Congress of Restaurant Owners and Hoteliers* in Vladivostok on March 29-31, 2006. ESD provided assistance to **13** restaurant and hotel owners from Ulan-Ude, Blagoveschensk and Khabarovsk to attend the Congress and participate at its seminars and training sessions. The event was organized by the Far Eastern Association of Restaurant and Hotel Managers. During the Congress, two representatives of the Amur Guild of Restaurateurs and Culinary Experts (Lobach and Ponomarenko) signed agreements for \$8,200 to purchase coffee-machines, slicing machines, coffee accessories (tempers and pitchers) and other coffee-shop equipment.

Due to the ESD program, the Association gained six new members from the Far Eastern region, which will enable better cooperation between enterprises within this sector in the RFE.

Here are some examples of previously conducted ESD **sector trainings** impact on the business development in the regions:

### **Hotels Implement New Business Practices**

After participating in sector-specific training *Organization, Management and Control in Accommodation Facilities* conducted by Elena Lyamkina (Moscow)

- Three hotels (Abricol, Amethyst and Versailles) developed and introduced Quality Standards for hotel services (Reception, Porters, etc.)
- The Amethyst and Versailles Hotels developed a program for employees advanced trainings.
- The Amethyst Hotel developed employees’ motivation program.

### Khabarovsk Aborigines Learn Business Basics

On March 21-24, the Ministry of Natural Resources of Khabarovsk Krai in cooperation with ESD Program, organized and conducted a special training course for entrepreneurs from local indigenous communities. **Thirty seven** business people studied business planning, taxes for small enterprises, peculiarities of accounting for national minorities' enterprises, recent law and tax policies concerning local minorities, as well as ecology and nature management. This course has contributed to the local communities' sustainable development.

### 2.4 Sector-Specific Consultancies

As part of the strategy for sustainability, the ESD Program is supporting our partners with technical assistance. ESD partner organizations would like to develop themselves as commercial training consulting centers. To help them achieve this task, ESD hired local experts to write business plans for Makon, Prognoz, Business School and FECED's training activities. These plans will be presented at the final Partners Meeting in April in Sakhalin.

### 2.5 ESD Program Impact

ESD partners report the program's success through monitoring the impact that the program activities make on the business environment of their regions.

#### 2.5.1 Impact from Business and Sector Trainings

ESD partner FECED has developed a questionnaire to measure the program impact on the companies that have been trained under ESD. The questionnaire assess whether the general impact from trainings is positive and useful, whether the enterprise's client base and sales have increased as a result of acquiring new skills and knowledge at ESD trainings. The results of the questioning are presented in the following table:

**Table 3 Results of the Impact Questionnaire**

Regions	Number of Respondents	Positive General Impact on Companies, %	Increase of Clients Base, %	Increase of Sales, %
Khabarovsk Region	17	100	100	100
Primorsky Region	50	86	70	60
Sakha (Yakutia)	20	100	89	81
Buryatia	28	89	64	75
Amur Oblast	119	97	82	87

In addition, companies commented that short-term business education had the following effect on their operations:

- New approach to business has been developed;
- Number of customers has increased;
- Quality control has been improved;
- New businesses have been opened and new jobs created;
- Companies started to allocate separate budget for training of employees.

## 2.6 Outreach and Communication

ESD COP, staff and partners have been in constant communication with other international projects, such as Russian American Education Center in Khabarovsk, BISNIS, ISC, New Eurasia Foundation, Russian Microfinance Center, and IREX. We share information, resources, exchange ideas and ensure collaboration with these and other organizations.

The ESD Program **website** continues to be updated. We publish training schedules, calendars of events, training materials and other resources on the web to ensure information exchange and collaboration between the project's partners. It provides information about the program's activities, findings and results to date.

### 1. Problems/Difficulties Anticipated in the Next Three Months

N/A